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SUBJECT: KAZAKHSTAN: FATE OF LARGEST BANKS TO BE DECIDED
IMMINENTLY (PART 3 OF 3)

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (U) This is the third in a three-part series analyzing recent developments in Kazakhstan's banking sector, the possible future liquidation of its assets, and potential implications for international export credit agencies.

¶3. (SBU) SUMMARY: U.S. Department of Treasury Advisor Tom Lanier and International Economist in the Office of Europe and Asia Larry Norton visited Almaty and Astana June 10-13 to assess current conditions and trends in Kazakhstan's economy and the overall health of its financial sector. Lanier and Norton's interlocutors reported that Kazakhstan's Financial Supervision Agency (FSA) has ordered the country's largest private banks -- Alliance and BTA -- to submit proposals for the restructure of their foreign obligations to their international creditors. The fate of BTA and Alliance, according to the FSA, is entirely contingent upon the level of investor acceptance to the proposed restructure. Should creditors reject the offers for restructuring, and BTA and Alliance Bank be forced into liquidation, Halyk Bank appears ready above all others to surface as the new champion of the Kazakhstani banking industry. END SUMMARY.

HALYK POISED TO BECOME NATIONAL CHAMPION

¶4. (SBU) Halyk Bank CEO Umut Shayakhmetova claimed that her bank is doing well, bucking the trend among the largest Kazakhstani banks. "Despite the recent downgrades and defaults at three banks, our portfolio is improving. Construction projects are picking up and some real estate transactions are moving forward," she said. Shayakhmetova said that Halyk's asset base is relatively healthy because it has very little exposure to the real estate and construction sectors, and generally has been conservative in its lending practices -- despite the fact during the height of the real estate boom profits in that sector were often enormous. "In crazy times, people could earn \$10 million in one week moving real estate." According to Shayakhmetova, Halyk is now benefiting from this conservatism and sees its deposits increasing across the board, in particular from state-owned enterprises and private individuals who have transferred funds from BTA and Alliance banks.

15. (SBU) In 2009, Halyk Bank has approximately \$500 million due in foreign debt, with \$700 million maturing in 2010. According to Shayakhmetova, Halyk has \$12 billion on its balance sheet, \$4 billion in overall debt, and maintains a capital adequacy ratio of 16 percent, which is 6 percent higher than the 10 percent mandated by the FSA.

16. (SBU) Commenting on the current status of the industry, Shayakhmetova predicted an eventual bankruptcy for Alliance, but does not feel that this will have a significant negative impact on Halyk, or the Kazakhstani banking sector overall. As for BTA, she admitted that she is as curious as anyone to see how this story plays out. She maintained that the government's acquisition of a majority stake in BTA was problematic. "Everyone can see that it was not done as smartly as it should have been." KazKommertsBank (KKB), she said, will be the bank to watch closely now, because they have "far more debt." (NOTE: According to KKB Executive Director Mokrousov, the bank is not planning any form of debt restructuring and believes it has enough capital to cover its obligations. Mokrousov reports a healthy capital adequacy ratio of 11 percent, and says that its capital adequacy was significantly elevated by a cash injection from Samruk-Kazyna and the EBRD -- exercising its preemptive rights -- and now stands at \$300 million. END NOTE.)

17. (SBU) Citibank Kazakhstan's Dan Connelly echoed Shayakhmetova's concerns, telling EconOfficer that Citibank recently zeroed its accounts with KKB as a precaution, and noting that KKB has approximately \$800 million due in foreign debt this year. He gave a strong endorsement to Halyk Bank's performance to date. Halyk Bank, in Connelly's opinion, would be the one bank the government would definitely save if necessary. (NOTE: The current Chairman of the

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National Bank of Kazakhstan, Gregory Marchenko, is the former CEO of Halyk Bank. END NOTE.)

18. (SBU) COMMENT: Samruk-Kazyna made clear to Lanier and Norton that ultimately the decision whether or not to liquidate Kazakhstan's failing banks will come from the top. As one Samruk-Kazyna official put in, "We are waiting for word from the creditors, and then Papa (i.e., President Nazarbayev) will decide what to do." END COMMENT.

HOAGLAND